HIGHSTREET™
ASSET MANAGEMENT

September 30, 2016

Alberta Securities Commission
Autorité des marches financiers
British Columbia Securities Commission
Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission
Ontario Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan

Attention:

Josée Turcotte
Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto ON M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, Rue du Square-Victoria, 22e étage
Montréal QC H4Z 1G3

By email: Comments@osc.gov.on.ca
Consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames,

Re: Canadian Securities Administrators ("CSA") Consultation Paper 33-404 – *Proposals to Enhance the Obligation of Advisers, Dealers and Representatives toward Their Clients* (the "Proposals")

Highstreet Asset Management Inc. ("Highstreet") is pleased to provide our feedback in response to the CSA's request for comments on the proposals. We fully support the principle that the interests of the investor be placed ahead of the interests of the registrant, where those interests may conflict, and we believe that this objective can be best served by enforcing the current rules and by addressing any gaps in the regulatory framework that is in place today.

Highstreet is an affiliate member of the Portfolio Management Association of Canada ("PMAC") and we support PMAC's comment letter submitted to the CSA on September 27, 2016.

Our response is primarily focused on the implications that the proposal may have on our business. Highstreet provides asset management services to institutional and individual eligible accredited investors. Highstreet is registered as an Investment Fund Manager, Portfolio Manager, Exempt Market Dealer and Commodity Trading Manager. We are the investment fund manager, portfolio manager and sole distributor of the family of Highstreet Pooled Funds. Distributions of the pooled funds are offered under National Instrument 45-106 Prospectus Exemptions. The pooled funds provide us with a cost effective means to provide investment management services to eligible accredited investors with smaller account sizes.

Conflicts of Interest

We agree that conflicts of interests and potential conflicts of interests should be transparent to clients and that they should either be avoided, or disclosed and controlled. Highstreet supports the CSA's philosophy to disclose such conflicts in a manner that is prominent, specific, clear and meaningful.

Conflicts of Interest – Proprietary products

In respect of the expressed concern over the creation of a material conflict of interest where an incentive is created to recommend a proprietary product in the proposed reforms, we are respectfully of a different opinion. Proprietary products in a firm such as Highstreet, are a cost-effective means to provide a client with investment management services where the client would otherwise not have access to such services, either a result of minimum asset limits or the cost-prohibitive nature of maintaining a diversified portfolio of securities. We are of the view that, notwithstanding that the product is a proprietary one, a client is not paying incremental or duplicate service fees as a result of purchasing the fund over having a segregated mandate comprised of several securities. In fact, we are of the view that a fund provides an investor with access to reduced transaction costs and custodial fees as well as access to audited financial statements, which would otherwise not be available to them. We believe having the option to put a client in a proprietary product creates no particular conflict of interest and affords us the ability to provide a solutions that is in keeping with their best interests.

We acknowledge that in a situation where a registrant offers both proprietary and non-proprietary products and the total compensation derived by a registrant on a proprietary product exceeds that of a non-proprietary product, a conflict of interest may potentially exist. We believe however, that the suitability obligations of a registrant should adequately mitigate the conflict, particularly if the client objectives incorporate the need to keep costs at a minimum. We are of the view that the combination of suitability obligations and the recent enhanced transparency requirements to clients (e.g. of costs, relationship disclosure information and client reporting) should adequately address the conflict. As a result, we do not believe that there is a need to 'avoid' the conflict, including not recommending a trade or providing a service. We respectfully submit that these proposed revisions take into consideration situations such as those we describe where, notwithstanding a perceived conflict may exist, such conflicts may be in the best interest of the clients.

We strongly support and encourage the CSA to continue their efforts to improve the transparency of compensation structures so the investor has the appropriate information to make fair comparisons when making their investment decisions and to more closely align the interest of investors with those of the advisor. The CRM2 changes that have been phased in over the last few years, culminating with the final changes effective July 15, 2016, were initiated to address these concerns. We believe it would be prudent to allow sufficient time in order to properly assess if these current changes require further refinement before incorporating changes as outlined in the proposal. We believe this would provide a more practical way to manage these potential conflicts of interest.

Disclosing conflicts of interest

Highstreet supports the proposal that firms have a reasonable basis to conclude that a client fully understands the disclosure regarding the conflicts of interest. However, the guidance is unclear as to

what would constitute a "reasonable basis". We would therefore request the CSA provide additional clarity as to the extent to which a firm/representative must go to establish that they have a "reasonable basis" for believing that clients fully understand the implications and consequences of the conflict between the firm/representative and the client. What evidence would the CSA consider as being sufficient to demonstrate that we believe the client understood the conflicts as they were outlined/explained?

In respect of the expectation of a registrant to be able to demonstrate a course of action prioritized the best interests of a client, we submit that it would be helpful to have more practical guidance surrounding the nature of records expected to demonstrate having met this obligation. Practical guidance will help ensure that registrants appropriately record their activities to demonstrate ongoing compliance to all the provincial regulators.

Definition of "institutional client"

Highstreet believes that the proposed change in the definition of "institutional client" would create operational and compliance complexities as it would create yet another definition that would differ from the current categories that exist for non-individual permitted clients or non-individual accredited investors. The proposed financial threshold of $100 million is significantly higher than the current threshold of a non-individual permitted client who can waive suitability based on the assumption that they are considered sophisticated investors that possess the knowledge and understanding of the services and products being purchased. Highstreet suggests consideration be given by the CSA to replace the definition of "institutional client" as proposed in the Targeted Reforms with the concept of non-individual permitted client as defined in NI 31-103 as industry business models and processes are already operating based on this definition.

Know Your Client (KYC) & Suitability

We support ongoing efforts to establish best practices concerning KYC as it is critical toward establishing suitability and forms an integral part of the investor protection regime. We note however, that the proposal seems to suggest, by virtue of the extent, scope and depth of information expected to be collected and the purposes for such collection, that registrants are expected to be in a position to provide a very all encompassing set of services to a client, such as client specific tax planning and financial planning services. We note that the proposals concerning suitability also support this idea of providing broader financial planning type services rather than focusing on the existing services the registrant specializes in.

We submit that current registration categories and their corresponding proficiency and experience expectations do not contemplate the provision of such broad services. These types of services are very technical and require specific knowledge (in the educational sense) and experience to be able to provide to a client. Regular dealing representatives and advising representatives simply do not have this expertise. Furthermore, current registered individuals have developed very specific experience (for example, derivatives and commodities advisor, fixed income adviser, exempt market dealer, etc.) and have been hired by registrant firms who offer product and services that require their technical expertise

and specific industry/sector/asset class experience. Many registrants are in fact specialty shops and are not designed, nor expect to, provide complete and broad based services to a client.

We do not believe that registrants should be required to provide these services and further, that such services are not currently registerable activities contemplated under the current regulatory regime. Overall tax planning, estate planning and financial planning are all services that are of benefit to clients, however, we submit that concentrating such services within a single provider may generate other conflicts of interest situations not currently contemplated by the proposals and would impact investor options and freedom of choice. In addition, we believe this would further amplify the expectation gap whereby investors may be led to believe that they are receiving services that are not within the scope of the agreed upon professional relationship. Moreover, the registrant regime does not provide for adequate proficiency and experience for such technical and complex services to be delivered in a consolidated manner. We submit that the CSA revisit the proposal to consider protecting investor rights to choose services and to provide flexibility for registrants who elect to provide a single or combination of some services, rather than a full service business model.

We also support a KYC form that includes plain language and explanations of terms, including financial objectives, risk, profile (and related terms). Additional practices outlined include having the form signed by both the client and the representative and ensuring that a copy be provided to the client. Highstreet would like the CSA to reconsider the requirement of having the form signed by the client in all circumstances. Practically speaking, inundating clients with paperwork that has no meaningful impact to their investment accounts creates a burden for the investor in terms of administration and the cost to support such administration. Many updates may be done in non-face-to-face situations, resulting in the need to incur costs to amend records, send them out for signature and resending with executed copies. We submit the CSA should consider allowing a more flexible regime for periodic delivery and execution of current KYC records which may achieve the same objective with reduced administration cost.

Further guidance and clarification would be appreciated in outlining what the CSA expects of registrants in a situation where a client does not provide some or all of the required KYC information. As well, outlining what the CSA's expectations are as to appropriate evidence that a firm have a "thorough process for assessing the level of risk a client is willing and able to take." Establishing clear standards will ensure that industry participants understand the requirement and will prevent subjective interpretation of terms that may be difficult to measure or enforce.

Relationship Disclosure

Highstreet believes that the terminology "proprietary", "mixed", and "non-proprietary" is misleading to investors and may warrant additional clarity. Disclosure pertaining to the list of products a firm offers, if implemented, should apply to all firms, not just to those with a "proprietary product list". The investor would be well served to understand what products are being offered by the registrant regardless of whether they are proprietary in nature or not. This disclosure obligation should not be limited to firms that only offer proprietary products.

Proficiency & Titles

Highstreet supports the CSA's proposal to enhance proficiency requirements for registrants including a continuing education requirement.

We supports a more principle-based approach to the regulation of titles, but do not believe that the Alternatives as outlined in the Proposal adequately address the CSA's concerns in a practical way. The CSA should consider incorporating guidance requiring that titles used by registrants should be clear, not misleading, and aligned with the appropriate registration category (rather than based on product shelf).

Regulatory Best Interest Standard

Highstreet strongly agrees that firms should always put the client's best interest ahead of its own where there is a conflict or perceived conflict. Highstreet has adopted the CFA Institute's Code of Ethics and Standards of Professional Conduct ("CFA Code") as a guide to expected behaviours when employees and officers interact with clients, counterparties and business partners. The CFA Code requires firms, among other things, to act in a professional and ethical manner at all times; to act for the benefit of clients; to act with independence and objectivity; to act with skill; competence and diligence; to communicate with clients in a timely and accurate manner; and to uphold the applicable rules governing capital markets.

Highstreet appreciates the CSA's efforts in outlining the objectives of the Regulatory Best Interest Standard. We believe that the proposal, in its current form, would create an unmanageable and perhaps unnecessary degree of regulatory, compliance and legal uncertainty among registrants. Furthermore, the lack of harmony across the CSA lends itself to additional confusion as it pertains to the interpretation and application of the Regulatory Best Interest Standard. Further consideration should be given to the concerns that have been outlined by the British Columbia Securities Commission prior to moving forward with this in Ontario.

We would like to thank the CSA for the opportunity to comment on the proposals. We look forward to the continued efforts in ensuring the investor is well protected.

Sincerely,

Linda McCormick
Chief Compliance Officer
Highstreet Asset Management Inc.